

CITY OF ROCHESTER HILLS



SEVEN YEAR FINANCIAL FORECAST

For Fiscal Years 2014 – 2020

May 20, 2013

INTRODUCTION

PURPOSE OF THE FORECAST

We are pleased to present City Council with a Seven Year Financial Forecast. The City's Financial Forecast was developed to give Administration and City Council a forward look at the City's revenues and expenditures based on a set of future assumptions. The forecast is intended to identify financial trends, shortfalls, and issues so the City can **proactively** address them rather than be forced into a **reactive** position. The forecast helps to prevent surprises. The forecast is built based on the City's *current* service levels, programs and policies and what those service levels, programs and policies will look like based on the assumptions used in the forecast.

The Seven Year Financial Forecast is not intended to be a budget, a proposed spending plan or a policy recommendation. As the name implies, this process is a forecast not a plan. The Financial Forecast is not intended to be a comprehensive financial plan for achieving City Council adopted objectives. ***It is a forecast, based on certain assumptions, of what our financial position could be if current service levels, programs or policies are continued.***

The Financial Forecast also sets the stage for budget development, aiding Department Directors, the Mayor, and City Council in establishing priorities and allocating resources appropriately. This year's forecast addresses the current economic conditions being felt within our community, the state, and the nation. The forecast will help identify economic outcomes and their affects on the City's revenues and the level of services and programs the City will be able to deliver within those forecasted revenue flows.

It should also be noted that the City does forecast the effects the assumptions will have on its Water and Sewer (Enterprise) Fund but, since the nature of this fund is to set rates at levels to cover operating expenses, the forecast is used more for assisting the Water and Sewer Technical Review Committee than in setting service levels.

KEY ISSUES AFFECTING THE ASSUMPTIONS DRIVING THE FORECAST

The Financial Forecast is based on a set of assumptions regarding what is anticipated to happen to the local, regional, state, and national economy over the next several years. Those assumptions are applied to the City's revenues and expenditures, which in turn highlight the City's ability to deliver services and programs.

ECONOMIC ASSUMPTIONS

The Financial Forecast is assuming a flattening of the economic downturn for FY2014, a modest recovery in FY2015 and FY2016, followed with a normal economy for the period of FY2017-FY2020.

Here's a list of issues affecting the economy and the City's ability to generate revenues to deliver its services:

- Citywide taxable values
- Funding from the state
- Credit market
- Unemployment levels for the City and to a lesser degree for the County and State
- Consumer confidence

Taxable Values

The housing market slowdown, believed to have started in 2006, is showing signs of improvement and the City Assessor is estimating that it will continue to improve throughout this forecasting period. The housing downturn had put pressure on the City's taxable values, which put pressure on our ability to deliver services. Improvement in this area is a good sign for service delivery.

Funding from the State

The City receives funding from the State in two areas. The first is a share of Sales Tax collections (commonly know as State Shared Revenue) which is showing signs of improvement. Based on the City's population growth from the 2010 census data, the City will be receiving a larger part of that revenue source. In addition, the State is seeing increased Sales Tax collections which we will also share in.

The second is our share of gas and weigh tax (commonly know as ACT 51 funding). Generally, as the economy grows you normally would see growth in our share of Gas and Weigh Tax as people and businesses drive more and use more gasoline. However, higher

gasoline prices are taking a bigger share of consumers and business's budgets, therefore, we do not expect to see much growth, if any, in our share of Gas and Weigh Taxes.

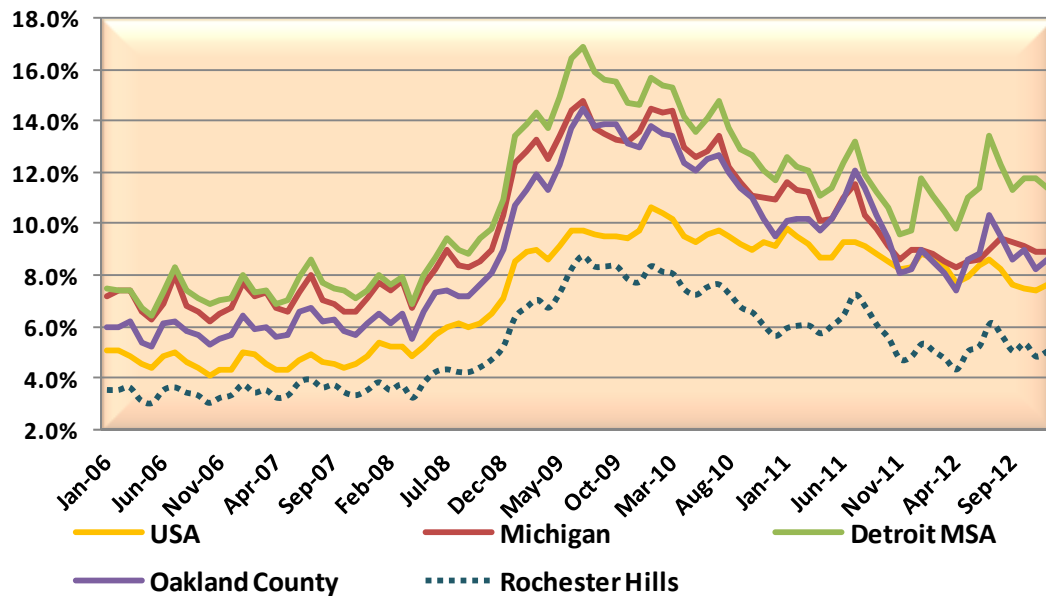
Overall, we expect modest growth in our funding from the State.

Credit Market

The credit market appears to be moving from a tight credit market to a softening credit market. A softening credit means it will be less difficult for consumers to buy autos, homes and durable goods. All items that will be a driving force to improving GDP, unemployment, and demand side economics.

Unemployment Levels

Over the past year, we have been seeing improving unemployment rates in the City. The U.S. Bureau of Labor Statistics recently reported that the City of Rochester Hills unemployment level was 5%. During that same period, the U.S. unemployment rate had moved to 7.6%, State of Michigan moved to 8.9% and Oakland County moved to 8.6%. The City's unemployment rate is superior. We will need to see unemployment levels improve for the Country, State, and Oakland County before consumer confidence will improve further.



Consumer Confidence

Consumer spending comprises about two-thirds of the U.S. economy and consumer spending is a key driver for business activity and local revenue generation. Consumers facing continued high unemployment levels and lower home equity values (that have not yet returned to prior levels), are holding tight on spending, only replacing items that can no longer wait for replacement, i.e. autos. In addition, consumers are paying down debt instead of expanding their spending which is a good thing for long term growth but doesn't

fuel the current economy. Higher energy and food costs are also putting a damper on their household budgets thus stalling any increases in spending.

Key Forecasting Points

The City's Financial Forecast is based on maintaining current programs, services and policies as amended in the current 2013 budget. It then focuses on key revenue and expenditure data points and applies assumptions of the future based on those key data points. The forecast does not try to forecast every data point but focuses on the items that are strategic to the City's ability to deliver services, programs and policies.

Revenues

The key revenue points measured and forecasted by the City include:

- **Taxable Values**
Working with the City Assessor, changes in taxable values are multiplied against current assessments and millage rates to forecast property tax revenue. You will also notice for this forecast, that we have separated changes in taxable values to both real and personal property. Recent changes in state law related to personal property dictated that we look at them separately.
- **State Shared Revenue**
Working off the Michigan Department of Treasury web site, our current collection experience and with general knowledge from the public domain, we also incorporate an adjustment factor for state shared revenue. With the release of the 2010 census data, we have incorporated the effects of that information on our revenue sharing forecast.
- **Act 51 Revenue**
Much like state shared revenue, we also incorporate a forecast for Act 51 revenue (gas and weight tax), a key funding source for Major and Local roads.
- **Interest Rates**
Working with the City Treasurer, estimated interest rates are applied against current investable balances to forecast future interest income revenue.
- **Current Millage Rates**
Assumptions are also applied on current millage rates (with or without changes) and assumptions on renewals.
- **New or Replacement Millage**
We also make assumptions related to new or replacement millages.

Assumptions used in the May, 2013 Forecast:

- **Taxable Values**
 - **FY2014 ***
 - **Real 1.28%**
 - **Personal 2.91%**
 - **FY2015 ****
 - **Real 1.50%**
 - **Personal -7.94%**
 - **FY2016 to FY2017 ****
 - **Real 1.50%**
 - **Personal 1.50%**
 - **FY2018 to FY2020 ****
 - **Real 2.0%**
 - **Personal 2.0%**

* Actual

** Estimated By City Assessor

- **State Shared Revenue**
 - 1.0% for FY2014 to FY2020
- **Act 51 Revenue**
 - 0.00% for FY2014 to FY2020.
- **Interest Rates**
 - **.35% for FY2014**
 - **.45% for FY2015**
 - **.65% for FY2016**
 - **1.0% for FY2017**
 - **2.0% for FY2018-20**

Estimated By City Treasurer

- **Current Millage Rates**
 - Expiring millage(s) are renewed or where allowed, moved to their Headlee Limit to meet operating needs provided the change does not increase the City's total millage rate from the year before.
- **New or Replacement Millage**
 - NONE

Expenditures

Just like Revenues, we also forecast expenditures. The key expenditure points measured and forecasted by the City include:

- **Salary and Wages**
Current agreements with union and non-union groups are used to forecast salary and wage changes. Where no agreements are available, the City uses a realistic estimation of what those changes might be.
- **Health Care and other Fringe Benefits**
Working with the City's health consultant, the Human Resource Department, and based on the City's recent health care experience, future health care costs are forecasted. The estimated change used is based on the City's core plan.
- **Changes in the Number of Employees**
Any planned changes, for the future, if known, are incorporated into the forecast.
- **Inflation**
This forecast incorporates an estimate of the Detroit CPI percentage. This percentage is applied against other expenditures, including Capital Projects, within the City's current budgets.
- **Sheriff Contract**
Working with the current contract and on the advice of the Business Manager from the Sheriff's office, an estimate of future cost increases in the Sheriff's contract are forecasted.

Assumptions used in the May, 2013 Forecast:

- **Salary and Wages**
 - 1.0% for FY2014 to FY2020.

- **Changes in Number of Employees**
 - None

- **Health Care and other Fringe Benefits**
 - +9.00% for FY2014 to FY2020.

- **Pension (City Share) Change**
 - None

- **Inflation**
 - General Citywide Inflation: +1.5%
 - Capital Project Inflation: +1.5%

- **Sheriff Contract**
 - .23%, FY2014*
 - 1.68%,FY2015*
 - 3.0%, FY2016-20**

* Based on current contract

** Estimate Provided by Oakland Sheriff Business Manger

THE FORECAST

With assumptions on both the economy and the key forecasting data points in place, let's look at the forecast at the fund level.

GENERAL FUND

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Model Updated May 1, 2013	Actual	1st Qtr	Projected	Projected	Projected	Estimated	Estimated	Estimated	Estimated
101 - General Fund									
City Taxes	\$ 11,106,216	\$ 11,392,250	\$ 10,696,740	\$ 5,905,840	\$ 6,770,590	\$ 6,718,800	\$ 6,776,400	\$ 6,854,950	\$ 7,050,160
Licenses & Permits	2,554,188	2,212,200	2,142,200	2,142,200	2,142,200	2,142,200	2,142,200	2,142,200	2,142,200
Intergovernmental Revenue	5,300,006	5,330,000	5,382,000	5,434,520	5,487,570	5,541,150	5,595,260	5,649,910	5,705,110
Inter-fund Charges	3,429,472	4,048,720	4,048,720	4,048,720	4,050,880	4,111,660	4,173,340	4,235,940	4,299,490
Service Charges	1,871,347	1,708,140	1,632,380	1,636,290	1,640,370	1,645,710	1,651,240	1,656,980	1,662,940
Fines & Forfeitures	28,019	8,000	8,000	8,000	8,120	8,240	8,360	8,490	8,620
Investment Earnings	90,734	112,270	117,010	140,730	206,580	318,620	639,800	642,550	646,410
Other Revenue	216,103	80,000	95,000	110,000	153,870	110,000	110,000	110,000	153,870
Transfer-In	66,616	26,850	23,530	23,430	24,790	27,560	32,320	45,870	45,110
101 - General Fund	\$ 24,662,700	\$ 24,918,430	\$ 24,145,580	\$ 19,449,730	\$ 20,484,970	\$ 20,623,940	\$ 21,128,920	\$ 21,346,890	\$ 21,713,910

101 - General Fund									
Personnel Services	\$ 9,267,828	\$ 9,851,780	\$ 9,972,980	\$ 10,157,780	\$ 10,371,070	\$ 10,672,800	\$ 10,917,600	\$ 11,174,300	\$ 11,449,310
Operating Supplies	241,826	275,660	255,060	254,060	256,500	258,880	264,060	266,480	271,790
Professional Services	1,213,612	1,485,570	1,561,250	1,513,500	1,501,070	1,546,380	1,540,900	1,579,760	1,585,190
Interfund Charges	2,009,257	2,338,890	2,338,930	2,338,970	2,346,310	2,381,570	2,417,310	2,453,580	2,490,430
Other Expenses	56,776	172,980	170,540	153,770	156,420	158,420	160,630	162,950	165,620
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	8,380,016	10,686,620	9,746,820	4,931,650	5,753,600	5,505,890	5,728,420	5,609,820	5,651,570
101 - General Fund	\$ 21,169,315	\$ 24,811,500	\$ 24,045,580	\$ 19,349,730	\$ 20,384,970	\$ 20,523,940	\$ 21,028,920	\$ 21,246,890	\$ 21,613,910

It should be noted that the City's forecasting model, used in forecasting General Fund, forces expenditures to equal revenues. To be able to achieve that goal, the forecast (for General Fund) reduces the amount being transferred to other funds. Until just recently, there were three funds that generally received a majority of transfers from General Fund: Special Police Fund, Local Street Fund and the Water Resource Fund but over the last few budget years, the budgets adopted by City Council have removed General Fund's support of the Water Resource Fund. We have adjusted our model to only use the Local Street Fund in this forced balancing exercise.

In this forced balancing model, the Local Street Fund was chosen as the safety valve because the transfer to that fund was not funding a contract, like the transfer to the Special Police Fund. In addition, the transfer made to that fund, by General Fund, was large enough to accomplish our forced balancing goal.

For this presentation, we have adjusted our current forecasting model so that General Fund makes at least a transfer to Local Street Fund large enough to make sure that the Local Street Fund will have enough revenue to cover **annual maintenance costs**. The General Fund is also able to transfer to the Local Street Fund additional funding for some reconstruction of Local Streets.

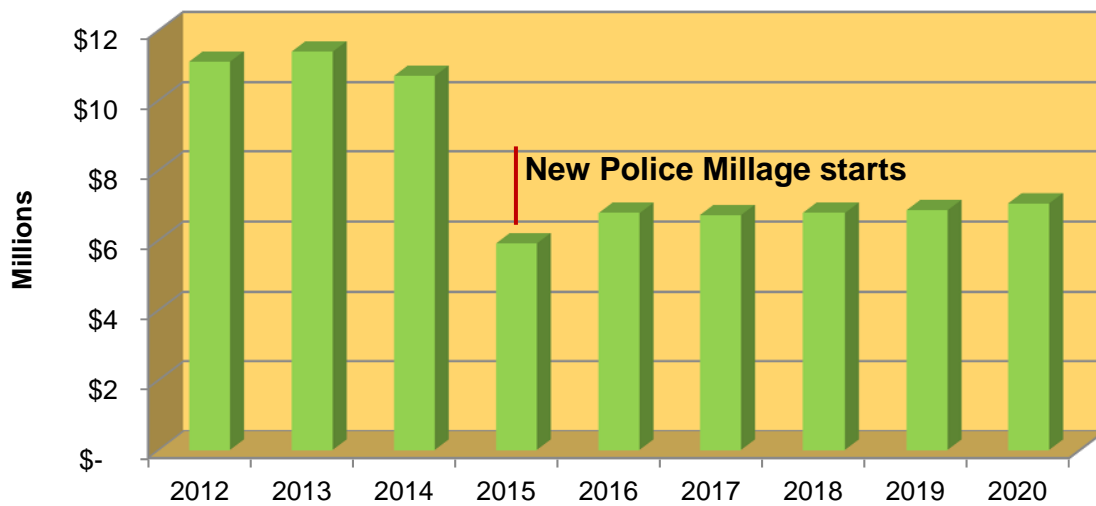
In FY2015, General Fund will no longer be making a Transfer to the Special Police Fund. In 2012, voters approved not only the renewal of two expiring millage(s), they also approved

new funding for Police Services with the understanding that General Fund's millage rate will decrease as the new Police Service millage rate gets applied. Thus, in FY2015, you see tax revenue in General Fund decrease with the offsetting reduction in the Transfer out area.

Based on the assumptions discussed above and the adjustment to the model for the General Fund, the forecast gives a better picture of the City's General Fund.

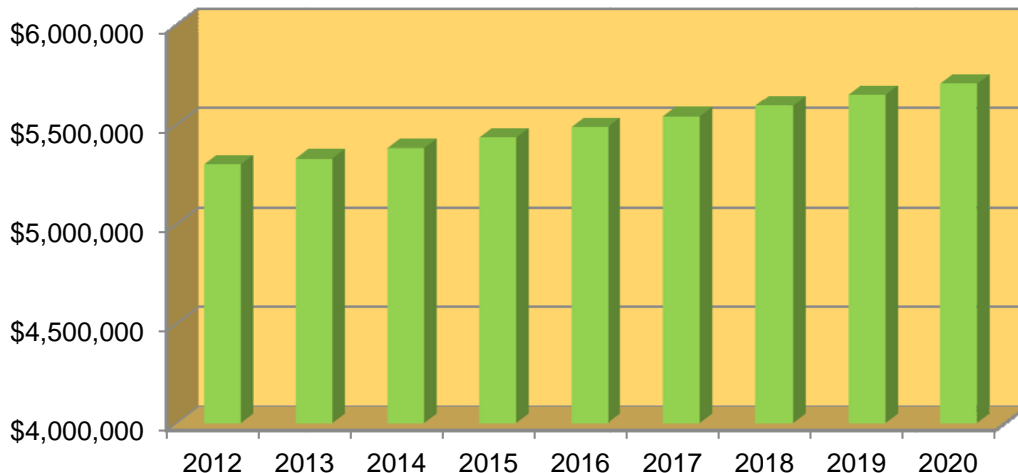
Let's now take a closer look at future revenue sources in General Fund. As the chart shows, property tax revenues have been stabilizing and show the shift in FY2015 reflecting the new Police Service millage.

General Fund Property Tax Collection



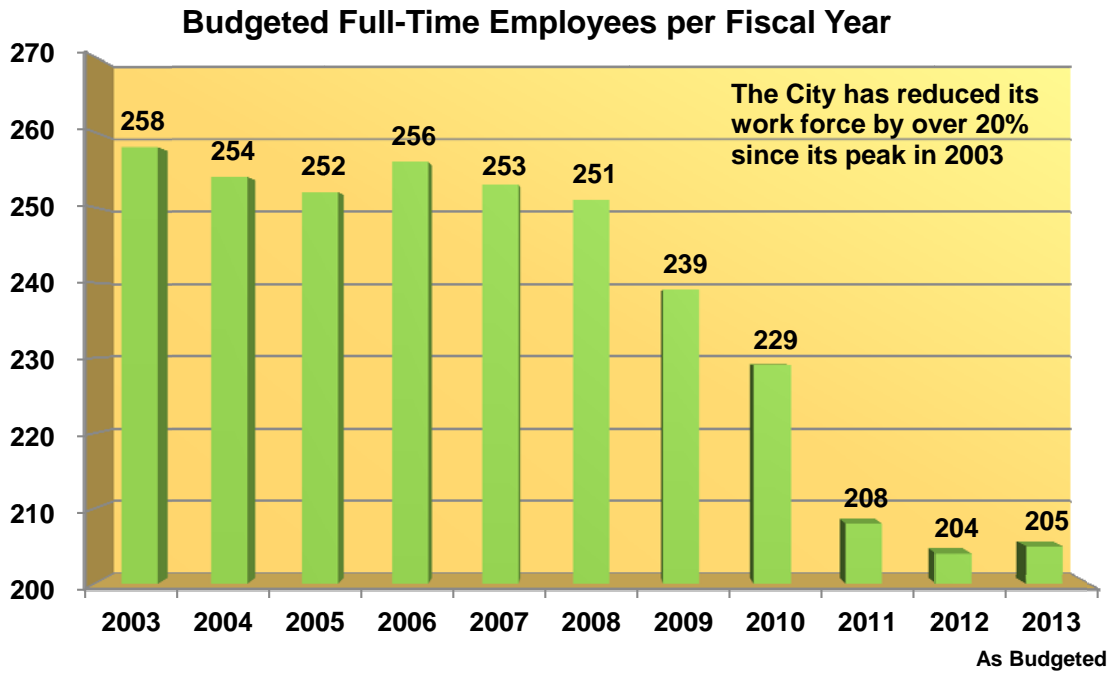
The General Fund's other major revenue source is state shared revenue. As the graph shows, the City's positive news on its 2010 census and improved collections at the state level are reflected, by growth, in this revenue source.

State Shared Revenue

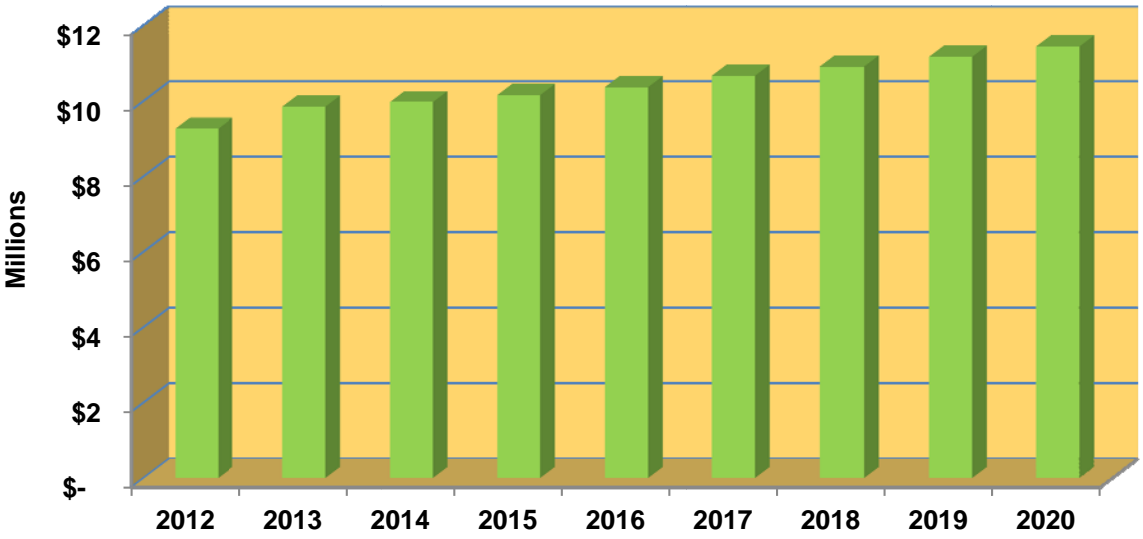


Now let's turn our attention to General Fund's expenditure side.

Even through the City's staff size has been downsized by over 20%, forecasted increases in health care costs and realistic salary adjustments are increasing the Fund's Personnel costs

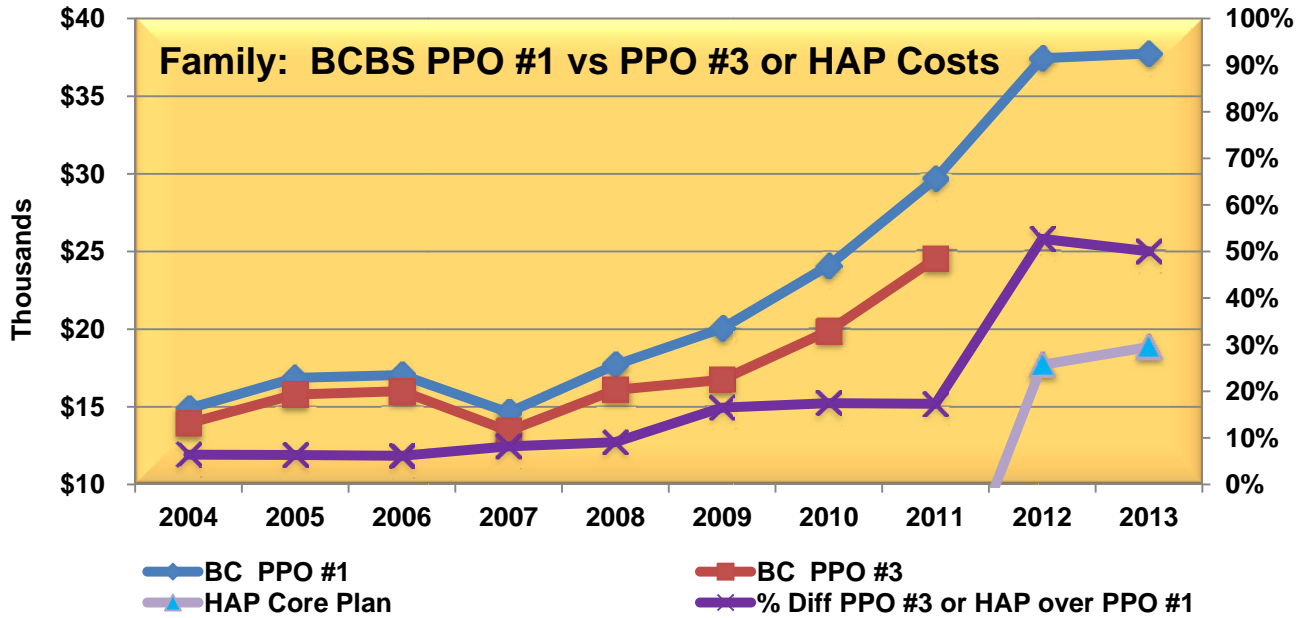


Personnel Services



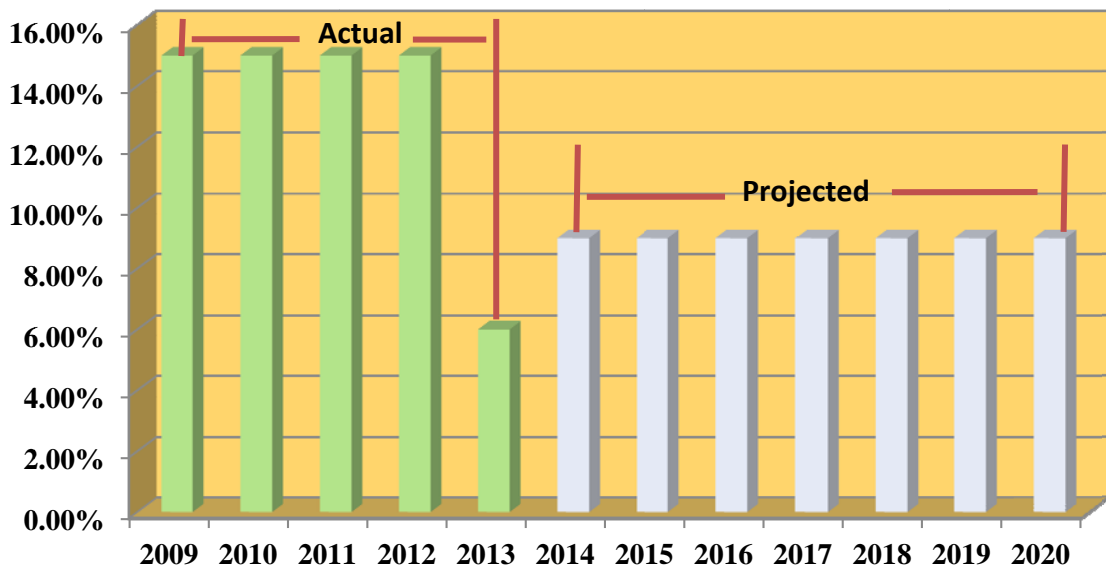
For a number of years, the City has been working on controlling the escalating cost of health care. As the following chart shows, since 2004 the City has been re-designing its health care

plan by changing deductibles, co-pays, and coverage, shifting some of those responsibilities to employees. Had the City not moved in this direction, the City would have paid almost 52% more in 2012 and over 50% more in 2013 for health care premiums over prior core plans.



The City's most recent plan re-design, included a change in the City's core health care plan, produced a savings in FY2012 of approximately \$650,000. The new core plan will continue to provide savings going forward, however, just like other health care programs, increases in health care costs are estimated to eat into those savings each year going forward. The estimates used for annual increases for the new core plan are based on a 7 year average of premiums. Increases on the old core plan were based on actual City based results.

% Change - Health Insurance

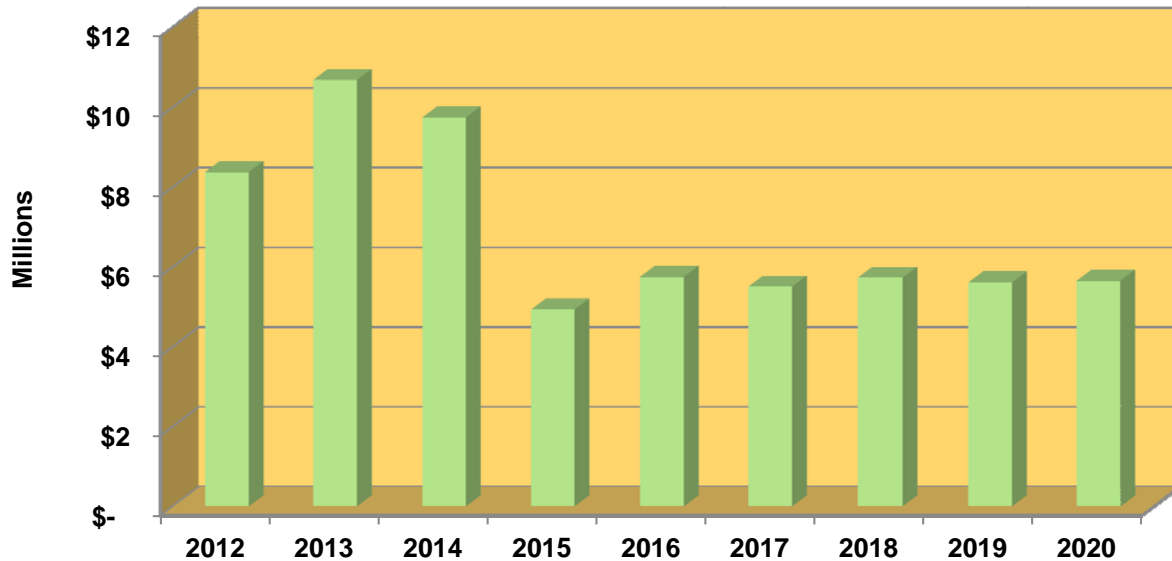


Transfers to other funds saw increases in fiscal years 2012 and 2013 with a slight decrease in 2014. You can see the introduction of the new Police Service millage that begins in FY2015 ending the General Fund subsidy for Police Services. You will also notice that General Fund continues its support for the Local Street Fund for maintenance related activity and some reconstruction work. All other transfers remain fairly consistent.

Transfers to Other Funds

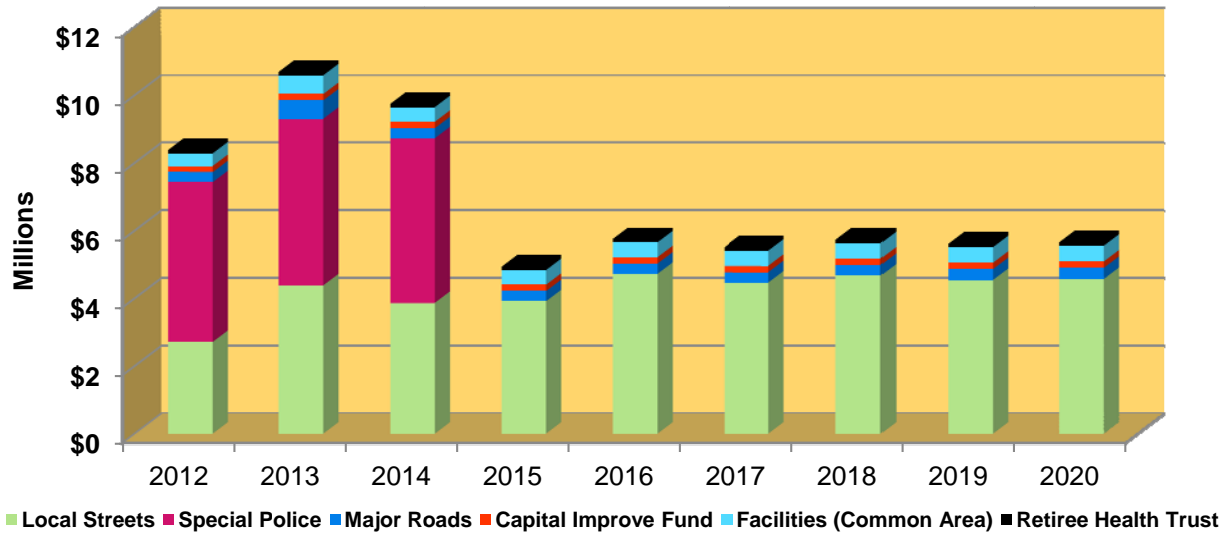
Transfer Out	2012	2013	2014	2015	2016	2017	2018	2019	2020
Major Roads	\$ 294,256	\$ 540,740	\$ 296,710	\$ 299,420	\$ 303,910	\$ 303,470	\$ 314,640	\$ 320,940	\$ 327,350
Local Streets	2,709,430	4,380,950	3,865,420	3,910,530	4,721,320	4,463,340	4,673,180	4,541,670	4,570,300
Special Police	4,720,680	4,923,590	4,863,350	-	-	-	-	-	-
Capital Improve. Fund	185,000	190,000	190,000	190,000	189,850	189,700	189,550	189,390	189,230
Facilities (Common Area)	370,920	551,610	431,610	431,610	438,080	444,650	451,320	458,090	464,960
Retiree Health Trust	99,730	99,730	99,730	99,730	99,730	99,730	99,730	99,730	99,730
E.D.C.	-	-	-	360	710	-	-	-	-
	\$ 8,380,016	\$ 10,686,620	\$ 9,746,820	\$ 4,931,650	\$ 5,753,600	\$ 5,505,890	\$ 5,728,420	\$ 5,609,820	\$ 5,651,570

General Fund Transfer Out



In FY2014, over 40% of all General Fund revenue (or over 90% of General Fund tax revenue) is transferred to other funds to support their activities and services. In FY2015, those percentages change to 25% and 81% respectively as General Funds ends its subsidy of Police Services.

General Fund Transfer Out



As the chart shows, with Special Police having a dedicated millage funding source, General Fund's Transfers Out are more controllable, ending some of the pressure General Fund was under before voters provided for the dedicated millage.

Important take away based on the forecast for this fund:

- Approximately 40% of all FY2014 revenue or over 90% of FY2014 tax revenue collected in General Fund is transferred to other funds to support their activities.
- The fund is fiscally sound following current budget policies and the structure used in the financial model. That soundness generally comes by limiting transfers to other funds.
- Able to provide for approximately \$4 million per year in annual funding to support Local Street Fund operations and construction.

MAJOR ROAD FUND

Model Updated May 1, 2013	2012	2013	2014	2015	2016	2017	2018	2019	2020
202 - Major Road Fund									
City Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses & Permits	-	-	-	-	-	-	-	-	-
Intergovernmental Revenue	3,267,509	3,105,000	3,105,000	3,105,000	3,105,000	3,105,000	3,105,000	3,105,000	3,105,000
Interfund Charges	20,019	20,000	20,000	20,000	20,000	20,320	20,640	20,960	21,290
Service Charges	213,291	204,500	204,500	204,500	204,500	204,500	204,500	204,500	204,500
Fines & Forfeitures	-	-	-	-	-	-	-	-	-
Investment Earnings	56,026	49,120	45,840	56,170	65,070	56,900	135,340	156,470	178,850
Other Revenue	30,192	60,500	60,500	60,500	60,500	60,500	60,500	60,500	60,500
Transfer-In	494,256	840,740	596,710	599,420	603,910	608,470	614,640	620,940	627,350
202 - Major Road Fund	\$ 4,081,292	\$ 4,279,860	\$ 4,032,550	\$ 4,045,590	\$ 4,058,980	\$ 4,055,690	\$ 4,140,620	\$ 4,168,370	\$ 4,197,490

202 - Major Road Fund									
Personnel Services	\$ 717,767	\$ 858,510	\$ 880,320	\$ 893,100	\$ 906,990	\$ 922,320	\$ 939,510	\$ 958,150	\$ 978,390
Operating Supplies	101,560	209,720	181,820	188,070	194,630	202,390	210,510	219,000	227,880
Professional Services	254,362	288,880	301,380	376,380	301,380	280,340	309,350	288,420	317,550
Interfund Charges	487,050	728,110	703,800	703,800	703,800	713,760	723,870	734,120	744,540
Other Expenses	1,411	2,300	2,300	2,300	2,300	2,330	2,360	2,390	2,420
Capital Outlay	978,736	3,789,820	1,830,000	3,977,680	6,270,400	857,420	898,670	847,250	781,250
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	1,361,250	1,125,000	750,000	375,000	-	-	-	-	-
202 - Major Road Fund	\$ 3,902,135	\$ 7,002,340	\$ 4,649,620	\$ 6,516,330	\$ 8,379,500	\$ 2,978,560	\$ 3,084,270	\$ 3,049,330	\$ 3,052,030

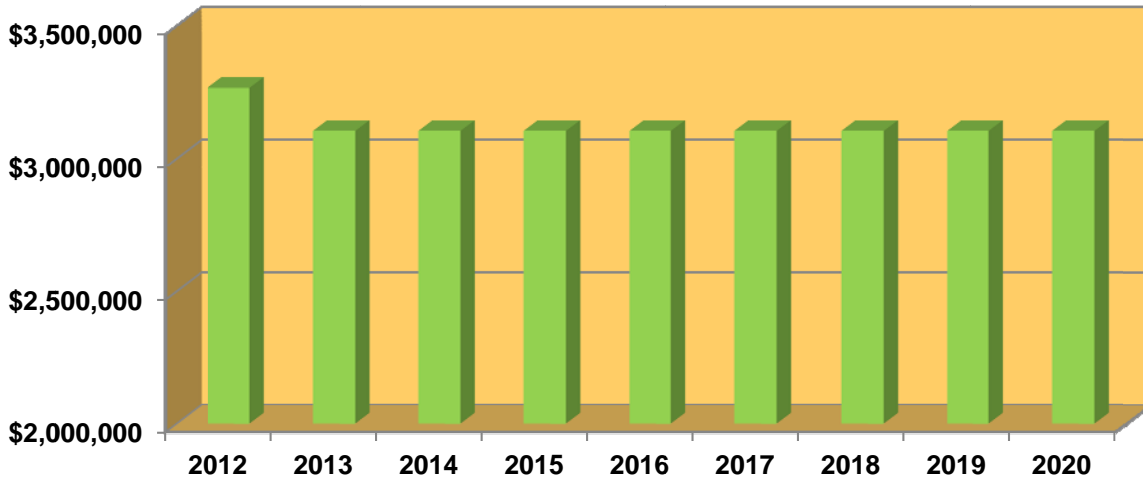
In the Transfer out area, you will notice that the Major Road fund will be going through a phase out process related to its transfer to Local Streets. This is to provide for the long-term sustainability of the Major Road Fund.

Capital Outlay is based on the City's Capital Improvement Plan (CIP). The CIP will be revised as project(s) get updated time frames, costs and city share requirements. Projects slated for 2014, 2015, and 2016 will be reviewed as we get closer to those years and will most likely be extended and better balanced out into the future.

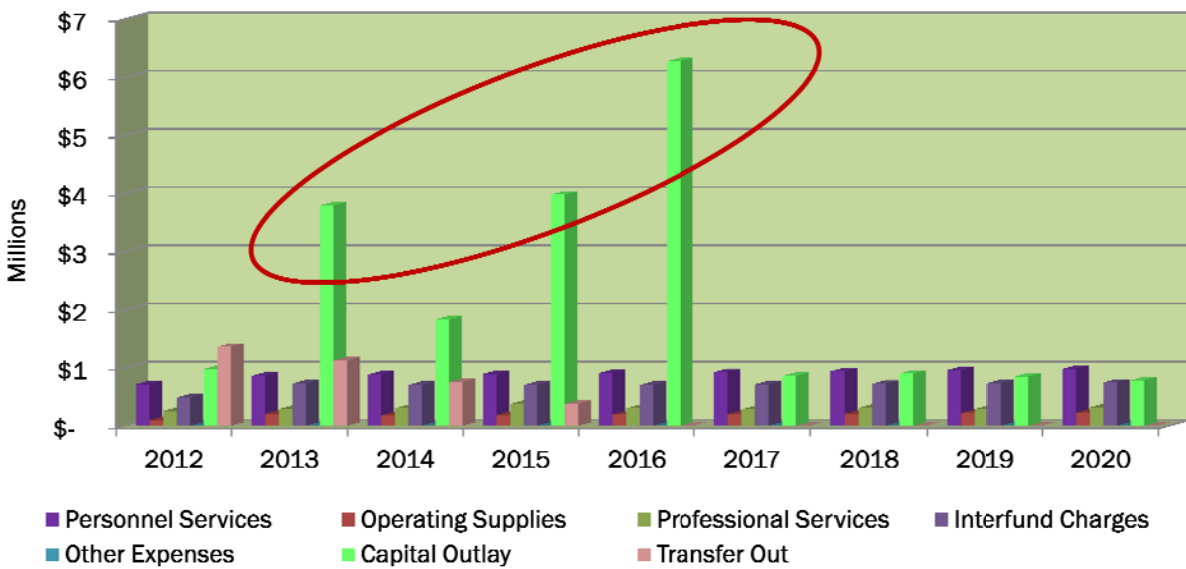
Model Updated May 1, 2013	2012	2013	2014	2015	2016	2017	2018	2019	2020
EXCESS OF REVENUE OVER									
(UNDER) EXPENDITURES	\$ 179,157	\$ (2,722,480)	\$ (617,070)	\$ (2,470,740)	\$ (4,320,520)	\$ 1,077,130	\$ 1,056,350	\$ 1,119,040	\$ 1,145,460
BEGINNING FUND BALANCE	\$ 15,641,687	\$ 15,820,844	\$ 13,098,364	\$ 12,481,294	\$ 10,010,554	\$ 5,690,034	\$ 6,767,164	\$ 7,823,514	\$ 8,942,554
ENDING FUND BALANCE	\$ 15,820,844	\$ 13,098,364	\$ 12,481,294	\$ 10,010,554	\$ 5,690,034	\$ 6,767,164	\$ 7,823,514	\$ 8,942,554	\$ 10,088,014

Major Road's Fund Balance is used to fund their capital expenditure budget and the fund is positioned well to meet that goal provided it keeps revisiting its CIP projects.

Gas and Weigh Tax



We see little to no growth in Gas and Weigh Taxes any time soon which is a major revenue source for both Major and Local Streets.



Projects slated for 2014, 2015, and 2016 will be reviewed as we get closer to those years and will most likely be better balanced out into the future

Important take away based on the forecast for this fund:

- Receives more in Act 51 funds than it needs for maintenance costs
- A portion of that difference it receives in Act 51 funding and what the fund needs for maintenance costs is currently being transferred to Local Street Fund

to be used for Local Street maintenance and operations. The fund will be phasing out this transfer over the next two budget/forecasted years

- The fund's fund balance is used for construction projects and should last with good prioritization of capital projects and with the phase out of its transfer to Local Streets.

LOCAL STREET FUND

The Local Street Fund has many challenges. Its biggest challenge is that it does not have enough dedicated revenue to *maintain* its street system in a safe and passable condition and must rely on the help of other funds. We have approached this funding challenge much like a four legged stool. Where ACT 51 funding provides 15%, Local Street millage(s) provide 30%, Major Roads provides 9%, and General Fund makes up the difference or 46%. Within the General Fund contribution is some funding for reconstruction activity.



LOCAL STREET FUND

Model Updated May 1, 2013	2012	2013	2014	2015	2016	2017	2018	2019	2020
203 - Local Street Fund									
City Taxes	\$ 1,046,300	\$ 1,035,650	\$ 2,504,890	\$ 2,527,740	\$ 2,565,230	\$ 2,603,360	\$ 2,654,760	\$ 2,707,420	\$ 2,761,190
Licenses & Permits	17,400	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Intergovernmental Revenue	1,207,343	1,192,000	1,192,000	1,192,000	1,192,000	1,192,000	1,192,000	1,192,000	1,192,000
Inter-fund Charges	-	-	-	-	-	-	-	-	-
Service Charges	134,940	102,600	107,150	111,630	116,340	121,290	126,480	131,930	137,650
Fines & Forfeitures	-	-	-	-	-	-	-	-	-
Investment Earnings	11,152	10,560	20,390	23,870	34,320	52,790	105,590	105,590	105,590
Other Revenue	23,426	6,330	14,500	220	10,000	-	10,000	-	10,000
Transfer-In	4,070,680	5,505,950	4,627,480	4,362,310	4,903,420	4,749,000	5,049,600	5,005,930	5,127,650
203 - Local Street Fund	\$ 6,511,241	\$ 7,863,090	\$ 8,476,410	\$ 8,227,770	\$ 8,831,310	\$ 8,728,440	\$ 9,148,430	\$ 9,152,870	\$ 9,344,080
Personnel Services	\$ 1,245,659	\$ 1,632,860	\$ 1,675,920	\$ 1,702,390	\$ 1,731,190	\$ 1,767,530	\$ 1,803,270	\$ 1,842,100	\$ 1,884,230
Operating Supplies	217,404	410,250	392,630	397,860	403,350	413,440	423,880	434,690	445,880
Professional Services	156,722	204,050	224,050	204,050	224,050	207,100	227,130	210,230	230,260
Interfund Charges	1,266,870	1,740,040	1,682,520	1,682,520	1,682,520	1,705,730	1,729,280	1,753,180	1,777,440
Other Expenses	118,345	116,800	126,510	131,580	137,720	144,200	151,000	158,140	165,630
Capital Outlay	1,689,146	3,235,000	3,747,540	3,468,250	4,000,910	4,176,936	4,813,870	4,754,530	4,840,640
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	547,650	559,090	627,240	641,120	651,570	313,504	-	-	-
203 - Local Street Fund	\$ 5,241,797	\$ 7,898,090	\$ 8,476,410	\$ 8,227,770	\$ 8,831,310	\$ 8,728,440	\$ 9,148,430	\$ 9,152,870	\$ 9,344,080

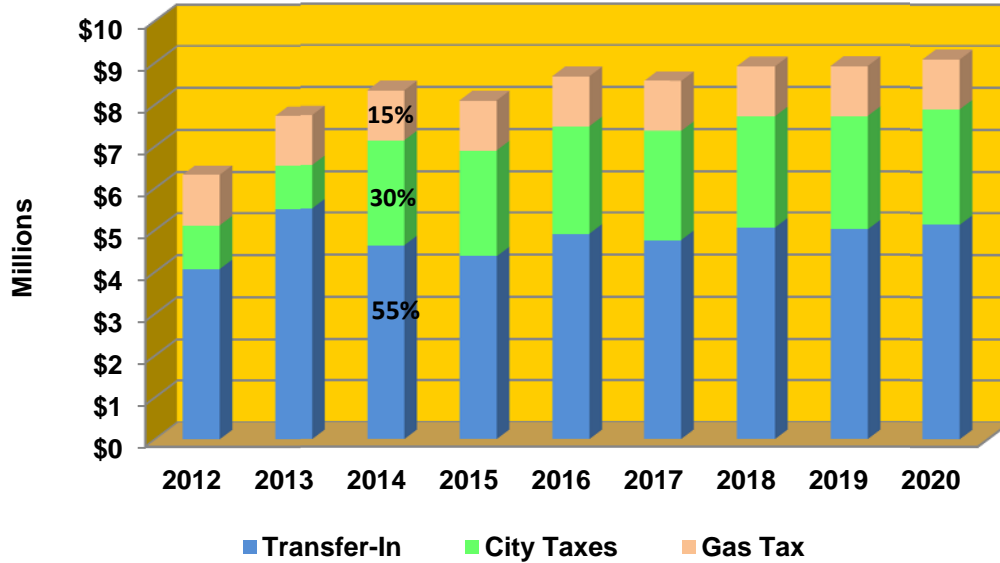
Local Roads will be receiving 30% of its funding from property taxes thanks to voter approval on repurposing of expiring millage(s) which frees up General Fund funding for reconstruction activities.

Local Street's Dependence on Other Funds

Model Updated May 1, 2013	2012	2013	2014	2015	2016	2017	2018	2019	2020
Transfer In - General Fund	\$ 2,709,430	\$ 4,380,950	\$ 3,877,480	\$ 3,987,310	\$ 4,903,420	\$ 4,749,000	\$ 5,049,600	\$ 5,005,930	\$ 5,127,650
Transfer In - Major Roads	1,361,250	1,125,000	750,000	375,000	-	-	-	-	-
Total Transfer-In	4,070,680	5,505,950	4,627,480	4,362,310	4,903,420	4,749,000	5,049,600	5,005,930	5,127,650
Local Street Fund Total Revenue	\$ 6,511,241	\$ 7,863,090	\$ 8,476,410	\$ 8,227,770	\$ 8,831,310	\$ 8,728,440	\$ 9,148,430	\$ 9,152,870	\$ 9,344,080
Transfers as a % of Revenue	63%	70%	55%	53%	56%	54%	55%	55%	55%
Capital Outlay	1,689,146	3,235,000	3,747,540	3,468,250	4,000,910	4,176,936	4,813,870	4,754,530	4,840,640
Capital Outlay as a % of Transfers	41%	59%	81%	80%	82%	88%	95%	95%	94%

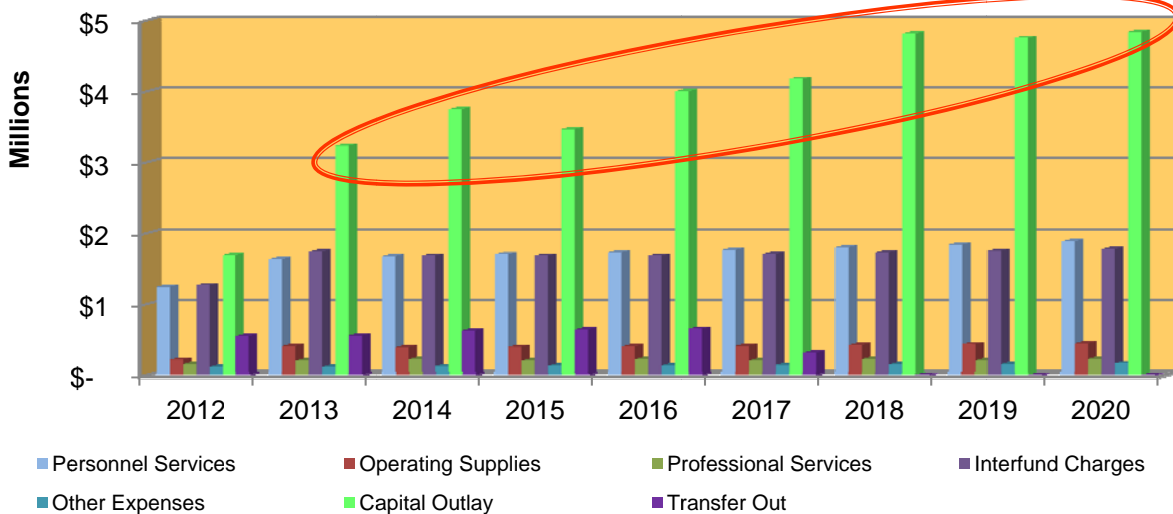
As the table shows, Local Roads depends on about 55% of its funding from other funds but it also spends 80% of those transferred dollars on reconstruction activity.

Local Streets Major Revenue Sources



As the graph shows transfer-in continues to be a major funding source for Local Roads

Local Streets Major Expenditures



As the above graph shows, capital expenditures are a major and growing expenditure for Local Roads

Important take away based on the forecast for this fund:

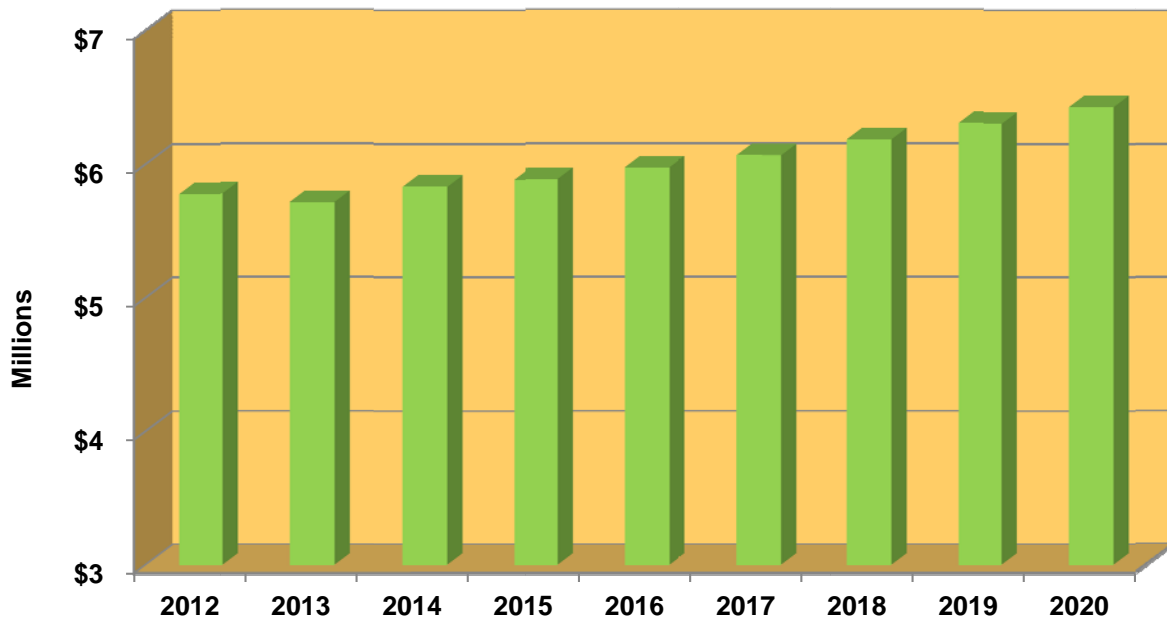
- The fund does not receive enough Act 51 (Gas Tax) funding to cover its maintenance costs.
- The only dedicated funding sources for Local Streets are Act 51 funding and voter approved Local Street millage(s).
- Local Streets has no funding source available for the reconstruction of subdivision (Local) streets and must rely on General Fund for support of its reconstruction needs.

FIRE FUND

Model Updated May 1, 2013	2012	2013	2014	2015	2016	2017	2018	2019	2020
206 - Fire Operating Fund									
City Taxes	\$ 5,775,345	\$ 5,710,880	\$ 5,829,290	\$ 5,882,490	\$ 5,969,730	\$ 6,058,460	\$ 6,178,090	\$ 6,300,680	\$ 6,425,830
Licenses & Permits	5,300	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Intergovernmental Revenue	730	-	-	-	-	-	-	-	-
Interfund Charges	-	-	-	-	-	-	-	-	-
Service Charges	1,561,409	1,569,250	1,594,250	1,619,250	1,619,250	1,635,710	1,652,350	1,669,160	1,686,150
Fines & Forfeitures	20,412	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Investment Earnings	19,097	22,230	22,320	28,820	41,920	64,930	131,070	132,310	133,560
Other Revenue	26,397	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Transfer-in	5,756	5,950	5,950	5,950	5,950	5,950	5,950	5,950	5,950
206 - Fire Operating Fund	\$ 7,414,446	\$ 7,323,310	\$ 7,466,810	\$ 7,551,510	\$ 7,651,850	\$ 7,780,050	\$ 7,982,460	\$ 8,123,100	\$ 8,266,490
Personnel Services									
Personnel Services	\$ 4,749,403	\$ 5,024,480	\$ 5,209,700	\$ 5,256,330	\$ 5,307,030	\$ 5,384,950	\$ 5,450,360	\$ 5,521,150	\$ 5,597,810
Operating Supplies									
Operating Supplies	79,732	91,050	90,050	90,050	90,050	91,430	92,820	94,220	95,640
Professional Services									
Professional Services	335,303	352,550	373,380	403,500	409,190	415,600	427,660	437,550	444,080
Interfund Charges									
Interfund Charges	1,368,354	1,499,900	1,523,900	1,499,900	1,523,900	1,546,770	1,569,980	1,593,540	1,617,460
Other Expenses									
Other Expenses	39,967	63,660	61,640	59,830	59,830	60,490	61,150	61,810	62,490
Capital Outlay									
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service									
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out									
Transfer Out	439,110	291,670	208,140	241,900	261,850	280,810	380,490	414,830	449,010
206 - Fire Fund	\$ 7,011,869	\$ 7,323,310	\$ 7,466,810	\$ 7,551,510	\$ 7,651,850	\$ 7,780,050	\$ 7,982,460	\$ 8,123,100	\$ 8,266,490

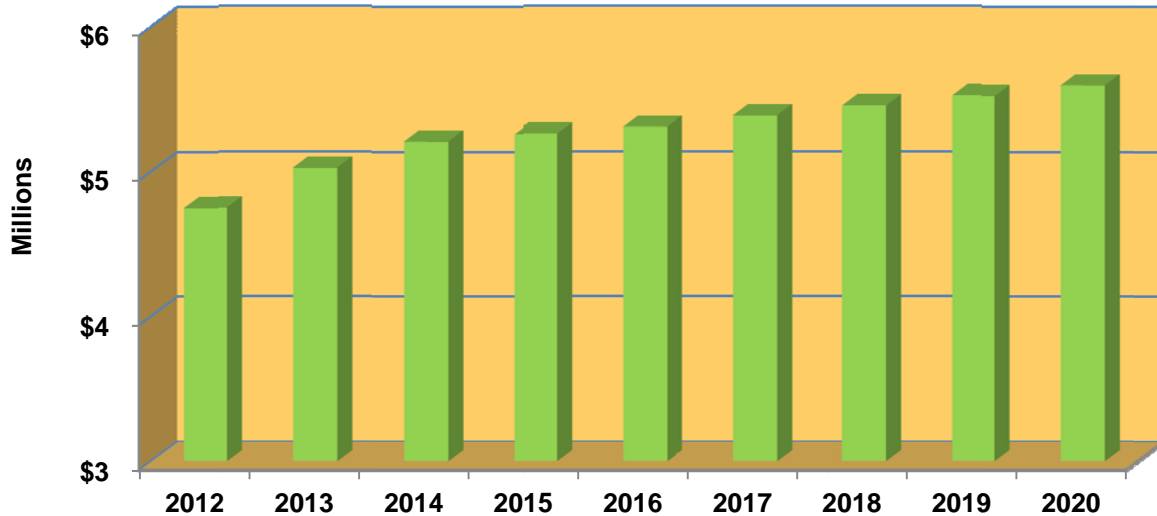
The stabilization of taxable values has greatly improved the outlook of the Fire Fund. The fund is in a position to contribute to its Capital Fund.

Fire Fund Property Tax Collection



In FY 2012, Fire Fund Millage was raised to its Headlee limit and remains there in this forecast. The increase did not increase the total City millage rate.

Fire Fund Personnel Services



Personnel costs now reflect the recently settled collective bargaining agreement. Like all funds, future increases in health care costs are also driving increases in Personnel Costs. In addition, increases in health care costs may be affecting Fire staff, but for a different reason. Their staff generally starts younger and move, in health care, from single to married then from married to family plans, each of those steps add to the cost of health care.

Model Updated May 1, 2013	2012	2013	2014	2015	2016	2017	2018	2019	2020
EXCESS OF REVENUE OVER									
(UNDER) EXPENDITURES	\$ 402,577	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BEGINNING FUND BALANCE	\$ 3,073,339	\$ 3,475,916	\$ 3,475,916	\$ 3,475,916	\$ 3,475,916	\$ 3,475,916	\$ 3,475,916	\$ 3,475,916	\$ 3,475,916
ENDING FUND BALANCE	\$ 3,475,916	\$ 3,475,916	\$ 3,475,916	\$ 3,475,916	\$ 3,475,916	\$ 3,475,916	\$ 3,475,916	\$ 3,475,916	\$ 3,475,916
Transfer Out - Fire Apparatus	405,990	258,550	175,020	208,780	228,730	247,690	347,370	381,710	415,890

The stabilization of taxable values has greatly improved the out look of the Fire Fund. The fund is in a position to add modest amounts into its Capital Fund.

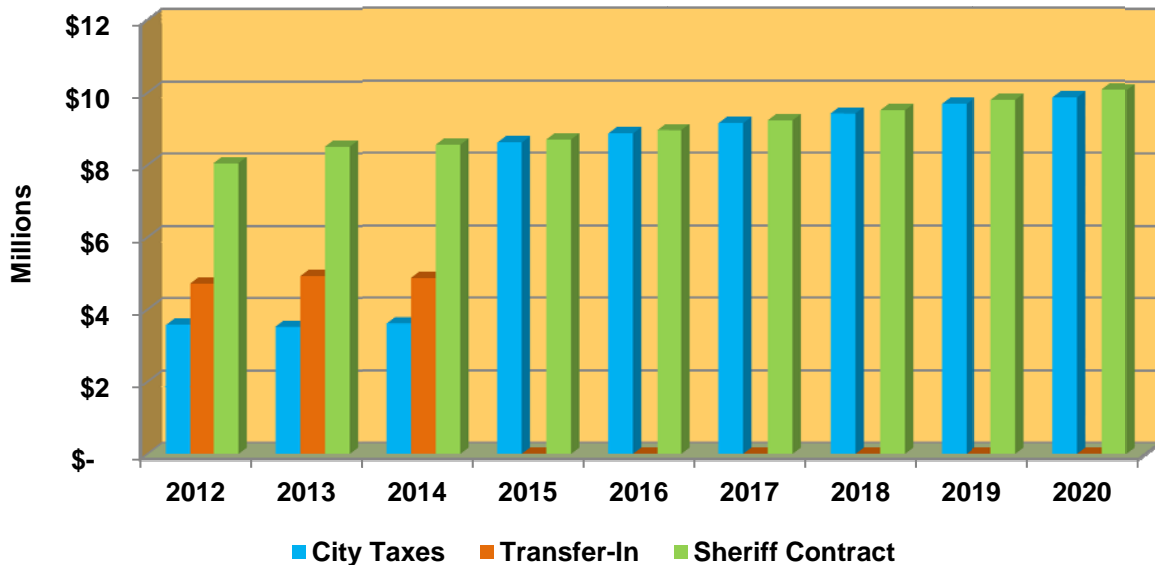
Important take away based on the forecast for this fund:

- In FY2012, millage rate needed to be set at the Headlee limit where it is today in the model. The increase DID NOT increase the City's total millage rate.
- With the stabilization of Taxable Values, the Fire Fund is able to support current service delivery levels *and* contribute a modest amount into its Capital Fund.

SPECIAL POLICE FUND

Model Updated May 1, 2013	2012	2013	2014	2015	2016	2017	2018	2019	2020
207 - Special Police Fund									
City Taxes	\$ 3,566,945	\$ 3,526,680	\$ 3,599,800	\$ 8,592,090	\$ 8,846,180	\$ 9,128,780	\$ 9,402,340	\$ 9,663,850	\$ 9,838,660
Licenses & Permits	-	-	-	-	-	-	-	-	-
Intergovernmental Revenue	291,624	288,650	289,500	293,910	301,800	309,930	318,300	326,930	335,810
Interfund Charges	-	-	-	-	-	-	-	-	-
Service Charges	161,137	157,040	157,410	159,370	162,880	166,490	170,210	174,040	177,990
Fines & Forfeitures	325,991	380,000	380,000	380,000	380,000	380,000	380,000	380,000	380,000
Investment Earnings	6,621	8,580	9,840	23,830	35,250	10,180	20,360	20,360	20,360
Other Revenue	13,649	-	-	-	-	-	-	-	-
Transfer-In	4,720,680	4,923,590	4,863,350	-	-	-	-	-	-
207 - Special Police Fund	\$ 9,086,646	\$ 9,284,540	\$ 9,299,900	\$ 9,449,200	\$ 9,726,110	\$ 9,995,380	\$10,291,210	\$10,565,180	\$10,752,820
207 - Special Police									
Personnel Services	\$ 192,420	\$ 215,190	\$ 199,070	\$ 200,830	\$ 202,740	\$ 204,770	\$ 207,030	\$ 209,490	\$ 212,160
Operating Supplies	9,669	16,500	16,500	16,500	16,500	16,760	17,020	17,280	17,540
Professional Services	8,055,172	8,508,430	8,536,170	8,681,860	8,942,220	9,210,440	9,486,710	9,771,270	10,064,360
Interfund Charges	160,772	204,780	204,780	204,780	204,780	207,860	210,570	214,130	217,340
Other Expenses	(11,806)	14,450	13,200	25,850	26,190	26,220	26,250	26,280	26,310
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	357,243	325,190	330,180	319,380	333,680	329,330	343,230	326,730	215,110
207 - Special Police	\$ 8,763,470	\$ 9,284,540	\$ 9,299,900	\$ 9,449,200	\$ 9,726,110	\$ 9,995,380	\$10,291,210	\$10,565,180	\$10,752,820

We can see the effect of the new Police Service millage plus the renewal of the two expiring millage(s) and the end of the General Fund's subsidy in FY2015.



With the level of contracted officers staying the same level (57 sworn officers), the cost of the sheriff contract moves upward from \$8 million in 2012 to about \$10 million by 2020, based on current assumptions used in the forecasting model.

Important take away based on the forecast for this fund:

- In FY2015, Police Services will be no longer need a subsidy from General Fund as its voter approved dedicated millage begins.
- Sheriff Contract Pricing Adjusts each Year which will require the millage to rise to offset those increases.

Water Resource Fund

Model Updated May 1, 2013	2012	2013	2014	2015	2016	2017	2018	2019	2020
244 - Water Resources Fund									
City Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses & Permits	-	-	-	-	-	-	-	-	-
Intergovernmental Revenue	23,091	103,000	-	-	-	-	-	-	-
Interfund Charges	-	-	-	-	-	-	-	-	-
Service Charges	44,036	18,700	18,700	18,700	18,700	18,700	18,700	18,700	18,700
Fines & Forfeitures	-	-	-	-	-	-	-	-	-
Investment Earnings	2,747	3,500	3,500	3,500	3,500	10,630	11,490	1,560	-
Other Revenue	9,356	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Transfer-In	-	-	-	-	-	-	-	-	-
244 - Water Resources Fund	\$ 79,230	\$ 137,200	\$ 34,200	\$ 34,200	\$ 34,200	\$ 41,330	\$ 42,190	\$ 32,260	\$ 30,700
244 - Water Resources Fund									
Personnel Services	\$ 299,478	\$ 200,440	\$ 205,110	\$ 207,590	\$ 210,300	\$ 213,360	\$ 216,710	\$ 220,340	\$ 224,280
Operating Supplies	11,379	18,000	18,000	18,000	18,000	18,280	18,560	18,840	19,130
Professional Services	32,305	41,250	43,250	45,250	45,250	45,920	46,620	47,310	48,010
Interfund Charges	146,652	93,920	93,920	93,920	93,920	95,140	96,370	97,610	98,890
Other Expenses	111,206	168,490	168,490	162,790	155,520	157,860	160,230	162,640	165,080
Capital Outlay	23,796	103,000	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	-	-	-	-	-	-	-	-	-
244 - Water Resources Fund	\$ 624,817	\$ 625,100	\$ 528,770	\$ 527,550	\$ 522,990	\$ 530,570	\$ 538,490	\$ 546,740	\$ 555,390

EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	2012	2013	2014	2015	2016	2017	2018	2019	2020
	\$ (545,586)	\$ (487,900)	\$ (494,570)	\$ (493,350)	\$ (488,790)	\$ (489,240)	\$ (496,300)	\$ (514,480)	\$ (524,690)
BEGINNING FUND BALANCE	\$ 3,573,693	\$ 3,028,106	\$ 2,540,206	\$ 2,045,636	\$ 1,552,286	\$ 1,063,496	\$ 574,256	\$ 77,956	\$ (436,524)
ENDING FUND BALANCE	\$ 3,028,106	\$ 2,540,206	\$ 2,045,636	\$ 1,552,286	\$ 1,063,496	\$ 574,256	\$ 77,956	\$ (436,524)	\$ (961,214)

You may recall that in the 2011 Financial Forecast the Water Resource Fund was headed on a path of being out of all funding, including fund balance reserves, by 2015. Since that presentation, the Department of Public Services has put together a plan in an attempt to match expenditures with available funding sources. Part of that plan was the deferring of all capital improvement projects. The postponement of those projects and adjustments in other expenditures, has resulted in the fund being able to exist for approximately four more years or into FY2019 before all available resources are gone.

DPS will need to address and begin to put in place more items contained within their plan for this fund to survive beyond 2019.

Important take away based on the forecast for this fund:

- Has no dedicated funding source. Must make fund balance last as long as possible to pay for maintenance costs related to the City's drain system.

- The Department needs to bring more items identified in their plan forward and put them in place if this fund is to survive beyond 2019.
- Many of the City's drains were constructed under Chapter 20 of the Michigan Drain Code which obligates the City to pay Oakland County Water Resources for maintenance related work. This limits the City's ability to contain maintenance costs. The City needs to work towards gaining control over the maintenance of those drains.

Millage Opportunities

In the next several years, there will be an opportunity for the City to look at and possibly repurpose an expiring millage. Let's look at that opportunity.

Green Space

Tax year 2014 for Fiscal Year 2015, will be the last year Green Space millage can be spread.

It may be an opportunity to ask voters if they would like to repurpose that expiring millage for Local Streets or Water Resources (for drain maintenance)

OPERATING MILLAGE	FY2012	FY2013	FY2014	FY2015	FY2016
Green Space / Natural Features	0.2972	0.2972	0.2972	0.2972	-
Property Tax Revenue	\$ 874,310	\$ 869,820	\$ 881,820	\$ 889,890	

Critical Factors to Focus on

- 40% of **General Fund** revenue or 90% of General Fund tax revenue is transferred to other funds.
- **Local Streets** needs additional funding sources if it is wants to perform any major subdivision road reconstruction activity. General Fund is able to give some limited support in this area.
- **Water Resource Fund** needs a future funding source to pay for the maintenance performed by Oakland County Water Resources if it is to survive beyond 2019.
- There could be an opportunity to **repurpose an expiring Millage** without increasing the overall City Millage Rate

SUMMARY

- Like many governments, the City was faced with an economic downturn, which challenged our ability to deliver programs and services supported by property taxes and state revenues.
- With Council's support we have been able to manage during the worst of the economic storm. Our careful prioritization of services and programs has made a difference.
- As we were told by the City's Audit firm, the Financial Forecast has helped us get ahead of issues and address them before they became problems. Working together, we have been able to use the fiscal forecast to move the City to a three year approach to budgeting, to bring services and expenses in line with revenue resources and to become pro-active on those issues affecting our ability to deliver services to our citizens.
- We appreciate Council's support. Without it, we might not have been able to manage during the economic storm.
- There will always be financial challenges that lie ahead for the City but with careful planning many of these challenges can and will be turned into opportunities.